

Message Text

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ACTION EA-09

INFO OCT-01 ISO-00 ABF-01 EB-08 COME-00 TRSE-00

CIAE-00 INR-07 NSAE-00 DODE-00 H-02 /028 W

-----042351 090310Z /63

R 090155Z AUG 77

FM AMEMBASSY MANILA

TO SECSTATE WASHDC 3449

INFO CINCPAC

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CINCPAC PLEASE PASS TO GAO HONOLULU

CINCPAC ALSO FOR POLAD

E.O. 11652: N/A

TAGS: AGAO, EFIN, ETRD, EINV, RP

SUBJ: GAO REVIEW OF POTENTIAL IMPACT OF INCREASED TAXATION OF
AMERICANS OVERSEAS

REF: STATE 120491

1. SUMMARY. A GAO TEAM HAS COMPLETED A 3-WEEK SURVEY OF THE
LIKELY IMPACT OF INCREASED TAXATION OF AMERICANS IN THE
PHILIPPINES RESULTING FROM CHANGES IN SECTION 911 OF THE
INTERNAL REVENUE CODE. TENTATIVE FINDINGS OF THE TEAM AREA
THAT MOST COMPANIES HAVE NOT YET MADE A POLICY DECISION ON
WHETHER TO REIMBURSE EMPLOYEES FOR THEIR INCREASED TAX.
REPLACEMENT OF AMERICANS BY NON-AMERICANS HAS TAKEN PLACE, BUT
NOT ALL INSTANCES ARE CLEARLY ATTRIBUTABLE TO 911. NEVERTHE-
LESS, THE POTENTIAL FOR EXTENSIVE WITHDRAWAL OF AMERICAN
PRESENCE IS CLEAR, AND THE TEAM IS INCLINED TO BELIEVE
THAT THIS WOULD HAVE AN ADVERSE EFFECT ON THE U.S. BALANCE
OF PAYMENTS. AT THE SAME TIME IT IS NOT CLEAR THAT THE
USG WOULD REALIZE ADDITIONAL REVENUES. ACTING ECON/
COMMERCIAL COUNSELOR ADVISED TEAM THAT IN HIS VIEW, WITH-
DRAWAL OF AMERICANS RESIDING OVERSEAS COULD BE EXPECTED
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TO HAVE SUBSTANTIAL NEGATIVE IMPACT ON U.S. TRADE
BALANCE AND FOREIGN INVESTMENT. END SUMMARY.

2. A GAO TEAM, CONSISTING AT DIFFERENCE TIMES OF BETWEEN
TWO AND FOUR OFFICERS, VISITED THE PHILIPPINES FROM JULY 18
TO AUGUST 5. THE PURPOSE OF THE VISIT WAS TO GATHER
DATA FOR AN EVALUATION OF THE IMPACT OF RECENT LEGISLATION

MODIFYING THE PROVISIONS OF SECTION 911 OF THE INTERNAL REVENUE CODE, THE EFFECT OF WHICH WILL BE TO INCREASE THE TAX LIABILITIES OF NON-OFFICIAL AMERICANS OVERSEAS, AND TO TAX ALLOWANCES RECEIVED FROM PARENT COMPANIES. THE GAO SURVEY AIMS TO EXAMINE THE LIKELY IMPACT ON COMPANIES AND INDIVIDUALS, AND ON THE U.S. BALANCE OF TRADE. THE INVESTIGATION WILL ATTEMPT TO JUDGE THE STANDARD OF LIVING OF AMERICANS OVERSEAS COMPARED TO PERSONS WITH EQUIVALENT JOBS IN THE U.S.

3. THE TEAM HAD A SPIRITED BREAKFAST MEETING ARRANGED BY THE AMERICAN CHAMBER OF COMMERCE, AND ALSO MET WITH U.S. EMPLOYEES OF THE ASIAN DEVELOPMENT BANK. (COMMENT: AS A RESULT OF SECTION 911, SOME SENIOR U.S. STAFF MEMBERS IN ADB HAVE LEFT OR ARE IN THE PROCESS OF LEAVING. IN THE ABSENCE OF SOME SORT OF REACTIFICATION, IT SEEMS LIKELY THAT A NUMBER OF OTHERS WILL LEAVE THE BANK. END COMMENT.) FOLLOWING THESE MEETINGS, THEY CONDUCTED DETAILED INTERVIEWS: 19 INTERVIEWS TO DETERMINE THE IMPACT OF THE LEGISLATION ON COMPANIES, AND 30 TO EVALUATE THE IMPACT ON INDIVIDUALS. THE TEAM ALSO MADE CALLS ON APPROPRIATE OFFICIALS AT THE DEPARTMENT OF FOREIGN AFFAIRS, BOARD OF INVESTMENTS, AND DEPARTMENT OF FINANCE.

4. PRIOR TO DEPARTING THE PHILIPPINES, THE TEAM SHARED UNCLASSIFIED

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SOME OF ITS PRELIMINARY FINDINGS WITH EMBASSY OFFICERS:

A. WITH RESPECT TO STANDARD OF LIVING, THIS VARIES GREATLY FROM COUNTRY TO COUNTRY. THE PHILIPPINES IS A SPECIAL CASE, AND FOREIGNERS HERE FARE BETTER IN HOUSING AND DOMESTIC SERVANTS THAN IN MOST PLACES. ON THE OTHER HAND, THERE ARE CLEARLY SACRIFICES: E.G., MEDICAL CARE, SCHOOLING, SEPARATION FROM FAMILY AND OWN CULTURE, DIFFICULTY IN MAKING INVESTMENTS AND BUILDING UP EQUITY IN THE U.S. ACTING ECON/COM COUNSELOR ALSO POINTED OUT THAT EXPENSES FOR NON-OFFICIAL AMERICANS CAN BE QUITE HIGH, ESPECIALLY IF THEY TRY TO MAINTAIN AMERICAN STANDARDS, SINCE THEY WILL BE BUYING ITEMS CONSIDERED LUXURIES LOCALLY, AND HEAVILY TAXED (E.G. BREAKFAST CEREALS AND FRESH TEMPERATE FRUITS LIKE APPLES AND ORANGES).

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ACTION EA-09

INFO OCT-01 ISO-00 ABF-01 EB-08 COME-00 TRSE-00
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B. MOST COMPANIES HAVE SIMPLY NOT MADE A POLICY
DECISION ON WHETHER TO PAY THE EMPLOYEE'S INCREASED
TAX LIABILITY, PROBABLY HOPING THAT REMEDIAL LEGISLA-
TION IS FORTHCOMING. MANY WILL CLEARLY BE RELUCTANT TO
PAY THE TAX, BECAUSE OF THE "GROSSING UP" ASPECT; I.E.,
SINCE ALLOWANCES ARE TO BE TAXED, INCREASED ALLOWANCES
LEAD TO GREATER TAX LIABILITIES, AND THIS MULTIPLIER
EFFECT AMOUNTS TO SUBSTANTIAL SUMS IN A FEW YEARS. THE
UNCERTAINTY OF COMPANY POLICY MAKES IT DIFFICULT TO JUDGE
HOW MANY INDIVIDUALS WILL OPT TO RETURN TO THE U.S.

C. SOME COMPANIES HAVE BEGUN TO RETRENCH; THAT IS,
PULL U.S. EMPLOYEES BACK TO THE U.S. AND REPLACE THEM
WITH LOCAL NATIONALS OR THIRD-COUNTRY NATIONALS. NOT
ALL CASES ARE THE RESULT OF 911, HOWEVER, AND TOHER
ECONOMIC OR BUSINESS CONSIDERATIONS HAVE CONTRIBUTED TO
THESE DECISIONS.

D. IT DOES APPEAR THAT AMERICAN PRESENCE OVERSEAS
IS IMPORTANT TO AMERICAN EXPORTS. THERE IS FAIRLY
CLEAR EVIDENCE TO INDICATE THAT AMERICAN REPRESENTATIVES
TEND TO BUY AMERICAN AND THAT PURCHASE OF U.S. GOODS
TENDS TO FALL OFF WHEN THEY ARE REPLACED BY NON-AMERICANS.
AN AMERICAN PRESENCE IS ESPECIALLY IMPORTANT IN THE
SERVICE INDUSTRIES, SUCH AS CONSULTING ENGINEERING. THE
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TEAM BELIEVED THAT THIS ISSUE OF COMPETITIVENESS
IS IMPORTANT, BUT ACKNOWLEDGED THAT IT IS DIFFICULT TO
DEMONSTRATE CONCLUSIVELY. (NOTE: EMBASSY OFFICERS HAVE
BEEN TOLD BY CONSULTING ENGINEERS THAT 911 WILL SPELL THE
END OF U.S. DOMINANCE IN THIS FIELD, AND AN END TO

U.S. SPECIFICATIONS BEING WRITTEN INTO CONTRACTS.)

E. THE USG WILL NOT NECESSARILY RECEIVE INCREASED TAX REVENUES, SINCE THE INCREASED LIABILITY MAY BE CANCELLED BY A CREDIT FOR TAXES PAID LOCALLY. THE TEAM FOUND THIS DIFFICULT TO EVALUATE IN THE PHILIPPINES, BECAUSE OF THE LOCAL PRACTICE OF SPLITTING SALARIES, WITH A PORTION PAID IN THE U.S. AND A PORTION IN THE PHILIPPINES.

F. U.S. BUSINESSMEN OVERSEAS ARE IN A SENSE UNOFFICIAL REPRESENTATIVES OF THE U.S., AND THIS INTANGIBLE ASPECT SHOULD ALSO BE CONSIDERED IN EVALUATING LEGISLATION WHICH IS LIKELY TO RESULT IN THEIR WITHDRAWAL.

5. ACTING ECO/COM COUNSELOR OFFERED HIS ASSESSMENT. IF 911 IS NOT AMENDED, MANY COMPANIES WILL NOT BE WILLING TO BEAR THE ADDITIONAL EXPENSE OF MAINTAINING AMERICANS OVERSEAS. FEW INDIVIDUALS WILL BE WILLING OR ABLE TO BEAR THE ADDITIONAL TAXES ON THEIR OWN. WITHDRAWAL OF AMERICANS WOULD HAVE FAR-REACHING NEGATIVE EFFECTS ON U.S. EXPORTS OF GOODS AND SERVICES. IT WOULD ALSO AFFECT U.S. INVESTMENT OVERSEAS, SINCE INVESTORS, PARTICULARLY NEW INVESTORS UNFAMILIAR WITH THE COUNTRY, ARE MORE COMFORTABLE WITH A LOCAL REPRESENTATIVE FROM THE HOME COUNTRY.

6. THE GAO, ACCORDING TO THE TEAM, HOPES TO PRESENT ITS UNCLASSIFIED

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COMPLETED STUDY TO THE CONGRESS BY JANUARY.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
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Sent Date: 09-Aug-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
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Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
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Disposition Event:
Disposition History: n/a
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Enclosure: n/a
Executive Order: N/A
Errors: N/A
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Original Handling Restrictions: n/a
Original Previous Classification: n/a
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Page Count: 4
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SAS ID: 1664751
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TAGS: AGAO, EFIN, ETRD, EINV, RP
To: STATE
Type: TE
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